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SUBJECT: American Business Committee Sees Both Good and Bad under the Correa Administration

¶1. (SBU) Summary. Representatives of the U.S. business community in Ecuador provided the Ambassador an overview of the business climate in Ecuador. They reported a mixed picture, with some highlighting the difficult investment climate created by the uncertain direction of economic policy, while others said that they have good working relations with the Correa Administration and are enjoying expanding business. They would like to see an early extension of the Andean Trade Preferences Act, and some will visit Washington to lobby for its extension. End summary.

¶2. (U) On September 11, the Ambassador met with 14 members of the American Business Committee (ABC). The American Business Committee is comprised of the heads of U.S. corporations in Ecuador and U.S. owners of Ecuadorian companies who provide advice to the Ambassador and her Economic-Commercial team on Ecuador's commercial environment. The ABC members gave an overview of the challenges and opportunities that they face in Ecuador's financial, mining, energy, information technology, flower, textile, automotive, travel and tourism markets.

Companies Worried about Uncertainty, Labor Rules, and Draft Constitution...

¶3. (SBU) Many of the ABC members stated that the investment climate has been undermined by industry's uncertainty about the direction of the Correa administration's economic policies. They reported that some investment is taking place in established lines of business, but the uncertainty has largely frozen plans to expand or enter into new areas.

¶4. (SBU) The participants said that the business uncertainty is compounded by the draft constitution, up for approval in a September 28 referendum, since it includes many ambiguous provisions. In addition, they said that the draft constitution would centralize power in the presidency, which would have considerable flexibility in interpreting the new provisions. Several representatives said that they believe President Correa would be pragmatic in implementing the new constitution, but were concerned about the power and discretion that it would give to his successors.

¶5. (SBU) The ABC representatives said that the labor market was a concern, citing more rigid labor rules and a large increase in the minimum wage, with the prospect of additional sizable wage increases. They said that the provision banning most forms of outsourcing will greatly limit their ability to run flexible, efficient business operations. They added that the increasing minimum wage is eroding Ecuador's competitiveness. A representative of the flower sector said that the minimum wage increase is comparable to the total wages paid by their African competitors.

¶6. (SBU) One company that works in the petroleum sector reported that foreign oil companies have essentially ceased investment, noting that it has downsized its workforce from 3,400 a year ago to only 400 currently.

...but Able to Work with Correa and Some Enjoy Good Business Opportunities

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¶17. (SBU) On the flip side, the U.S. companies believe that the Correa Administration wants to do what is right for Ecuador. Government officials are accessible, open to positive recommendations to resolve problems and have taken positive actions to resolve problems. One manufacturer said that if the company was viewed as part of the solution, the present government would often use the company's recommendations to resolve problems. Some companies reported that the Correa Administration had resolved some long standing customs issues and that it was focused on job creation. One company official commented that he met with a government official who ordered his staff to resolve importation issues because it would create manufacturing jobs in Ecuador.

¶18. (SBU) Several participants said that their impression was that corruption was appreciably lower under the Correa Administration. They noted that they have not heard any rumors of bribe requests by administration officials, and added that government officials have asked them to report any issues that they have to the government.

¶19. (SBU) A number of the representatives stated that business has been good in their sectors. One reported that his company had expected sales to drop by about 15 percent in 2008, but instead sales had grown by over 30 percent and his company was working at full capacity. Another said that thanks to improved customs enforcement that keeps out contraband, demand for goods produced by his factory had increased, and he was planning to increase capacity by 50 percent.

ATPA

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¶10. (SBU) Members of the American Business Committee would like to see the Andean Trade Preferences Act (ATPA) extended as soon as possible, since business decisions are already being made for next year. A representative of the flower growers said that a December expiration was the worst possible timing for the flower industry, since it would create uncertainty just before the peak Valentines season, and predicted that if it were not renewed by December a number of Ecuadorian producers would go broke. He added that uncertainty created by multiple short-term extensions had forced flower producers to look at alternative markets, notably Eastern Europe and Russia. Others remarked that they do not understand reluctance to extend ATPA for a longer period, since the program provides employment in textile and flower production, reducing the attraction of narco-trafficking, and also created jobs in the United States.

¶11. (U) Several participants reported that they would visit Washington the week of September 15 to lobby for ATPA renewal.

Comment

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¶12. (SBU) The comments by the American Business Committee reflect the broader business climate under the Correa Administration. Uncertainty has hampered long-term investment, and abrupt changes in policy have been particularly challenging for regulated sectors such as petroleum and mining. But at the same time a number of business sectors have established working relationships with the Correa Administration, and many are also enjoying good years since domestic demand has remained strong, supported in large measure by high oil prices, growing non-petroleum exports and relatively strong remittances. The positive assessment of diminished corruption also reflects the broader Ecuadorian business assessment.

Hodges